Obtaining Maximum Value and Income from Towers

A 2,000-foot tower isn't worth what it once was. Meanwhile, three telephone poles sold for $2.5 million. Tower economics changed as mobile network operators shifted their emphasis in advance of 5G wireless communications and as land owners became more savvy.

By Don Bishop

Three methods of determining the value of a telecommunications tower — asset value, business-use value and market value — may produce widely different results, according to Tom Engel. A co-director of Strategic Tower Advisors, Engel explained the differences and provided examples of tower sales figures that highlighted the effects of shifting trends in tower use when he spoke at the 2017 Network Infrastructure Forum, part of the International Wireless Communications Expo. He said that infrastructure, or the basic physical systems of a business or nation, such as ports, power generation and communication, is attracting investors' dollars. "It's really where all the money is moving in the stock market in the investor arena," Engel said. In the wireless telecommunications business, towers and rooftops long have made up the infrastructure, with light poles, billboards and rights of way becoming increasingly important.

As a buyer, seller, adviser or broker, Engel has completed more than 200 transactions worth more than $1 billion. He is the founder of the Milestone Media brokerage, and at Strategic Tower Advisors, he is a cofounder with Jody McCoy.

The asset value of a tower, Engel said, is what it costs to build it or to replace it, and it has nothing to do with market value. "You can have a tower that costs $2 million to build, and if it generates no revenue, it's not saleable," he said.

The business use value of a tower has to do with how important it is to the conduct of the owner's business. Broadcasters, cellular network operators and wireless internet service providers (WISPs) have to have towers — whether they own them or rent them — or they're out of business. As with asset value, the business value of a tower has nothing to do with market value, Engel said.

The market value of a tower is purely the cash flow that the tower will, or can, generate in the future.

Tall Tower

"In Alabama, I sold a 2,000-foot tower, equipped with an elevator, for $200,000," Engel said. "It cost $2.5 million to build. I sold three telephone poles in California for $2.5 million. The steel itself doesn't make a difference. What's on it does."

The tower companies really are not tower companies, Engel said, but more like specialized real

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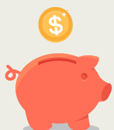
– Tom Engel, director, Strategic Tower Advisors

Photo by Don Bishop



estate companies, such as Marriott. They buy structures, they buy land, they buy billboards or whatever they could put something on to generate cash flow. "They're buying the revenue flow — not the structure, not the assets," Engel said. "The assets are simply incidental means to get there."

Noting that the three public tower companies — American Tower, Crown Castle International and SBA Communications — have consolidated huge masses of towers and that a few of the other smaller consolidators, such as Vertical Bridge, invested $4 billion in the last two years acquiring 14,000 sites and 37,000 billboards from iHeart Media, Engel said the business is beginning to return to the days of cable franchising and pole agreements.

Small Cells

"With the internet of things and with 5G, people want to do the small cells," Engel said, referring to mobile network operators. "One tower company has called itself a competitive local exchange carrier (CLEC), and they're going to cities and demanding free use of their right of way because they call themselves a CLEC," he said. "They're being sued in several locations. Verizon and some of the big guys are going to the federal government trying to override this stuff so they can control the rights of way without local jurisdiction. Cities are scrambling to control the rights of way, their light poles and their power poles so they can get some revenue from the value of this network."

Owners with towers as assets that they use as part of their businesses have several ways to make a profit from using those assets, which sometimes is referred to as monetizing an asset. Engel said many broadcasters do not like to get rid of their towers because they are necessary for their business. He said any one of the big tower companies would gladly buy the tower and give the broadcaster virtually perpetual use of that tower on a 100-year lease for free so they would have no operating costs, no insurance and no maintenance. In that way, the broadcaster monetizes the tower, and the tower company profits from renters that collocate antennas on the tower.

Alternatively, the tower company may pay the broadcaster eight, nine or 10 times what the broadcaster is willing to pay to lease back the tower, plus a higher multiple for the other kinds of revenue, Engel said.

"People who own infrastructure who

Tower Value

By themselves, towers have little or no value. Because of ongoing operating expenses, they represent an ongoing liability. The value is all in the sustainable tower cash flow (TCF). Because of technological obsolescence and creditworthiness, different types of tenants have different value. These values are fluid and depend on multiple factors.

Current Values

Type of Tenant	Multiple of Tower Cash Flow
Broadband Carriers	18 to 30 times
Utilities and Government	12 to 16 times
Wireless Internet Service Providers	8 to 12 times
Narrowband	7 to 12 times
AM Broadcast	7 to 9 times
FM Broadcast	9 to 12 times
TV Broadcast	9 to 12 times

Tower cash flow is recurring revenue, less the actual costs for the transferred utilities, land and taxes, and the approximate annual cost of $1,500 per year for maintenance, insurance and monitoring.

The range varies because of capacity, loading, traffic, population, maturity, competition, creditworthiness, environmental sensitivity and potential capital requirements.

Earn-outs or revenue sharing of future income can be integrated into most transactions to allow sellers and lessors to benefit from future upside.

Source: Strategic Tower Advisors

Perpetual Revenue Stream

Owners of tower sites, rooftops and other infrastructure who would prefer an ongoing revenue stream have many alternatives.

Owners and lessors can realize an ongoing 70 to 90 percent revenue or cash flow share from existing third-party tenants.

Over the next 50 years, as tenants churn and the professional tower company replaces them, owners can realize a 60 to 80 percent revenue or cash flow share from new tenant revenue.

If the owner prefers, the buyer or managing entity can pay a long-term flat monthly rent for the facilities with an annual escalator.

These revenue streams can be secured with a ground lease or access easement.

As an added benefit, the owner can include a provision to buy back the asset for $1 at the end of a long-term agreement.

Source: Strategic Tower Advisors

need it for their business shouldn't fear monetizing," he said "They're getting value out of it by letting someone else really market the tower who knows what they're doing. Between the 100,000 or 200,000 sites that the big guys have right now, they have almost a daily relationship with all of the carriers."

Engel said there are four major carriers: AT&T Mobility, Verizon Wireless, T-Mobile US and Sprint. "When AT&T contracts your tower, it adds about a $500,000 value to it," he said. "So, if you build a $75,000 tower and you add three carriers to it, you can sell it for $1.5 million tomorrow. Right now, broadband revenue is selling between 18 and 30 times cash flow. That's 18 to 30 years' worth of cash flow they're going to pay upfront."

Meanwhile, wireless internet service providers sell at about 12 times cash flow, Engel said. Government users sell at about 12 times to 15 times. Broadcast AM and FM users sell between 8.5 and 12 times cash flow.

The difference in the revenue has to do with many factors, and Engel said one of them is what he calls technological obsolescence. "In the 1980s, I sold a Little Rock, Arkansas, paging system for $1,800 per subscriber," he said. "A year later, I couldn't sell one for $50 a sub because paging just fell off a cliff, and the value of paging revenue fell off a cliff. If you have paging on your tower, it's actually worth a negative one-to-one because a buyer knows that the paging system operator will stop paying his bills and that the tower owner will have to warehouse his equipment, send him delinquency notices and hire an attorney to tell him to come pick up his equipment. The cost of removing the equipment and fighting the last part of the contract gives a negative value to the paging system as a renter."

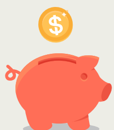
In a contrasting example of perceived negative value, Engel spoke of representing Hawaii Telecom when it sold five towers in Hawaii that had a negative cash flow of $250,000 per year. In the 15 months after the sale, the buyer added $400,000 in cash flow to the towers. He paid $30,000 for the five mountaintop sites that originally only the phone company could own because they were designated for utilities. Engel said the telephone company wouldn't lease space on the sites to other users because they would have had to obtain approval from the public utilities commission every time. "The legal cost would have been more than the space was worth," Engel said. "Once they sold the sites to a private party, it opened the floodgates and tenants were just pouring in."

Other Holdings

To ensure their future, Engel said tower companies are looking at other kinds of holdings. He said when Vertical Bridge bought towers from iHeartMedia, the company also bought the rights for 37,000 billboards. He said the Vertical Bridge parent company, Digital Bridge, bought Vantage Data Centers. It also bought a share of ownership in ExteNet Systems from SBA Communications.

Engel said the company he mentioned that would like to be known as a CLEC wants to put 120-foot poles in the rights of way that hold microcells or minicells.

"The cities should get money from this," he said. "Cities, cable



operators and broadcasters typically want to keep what they have, but they can monetize it. They can obtain a huge amount of front revenue and ongoing revenue share by taking these systems to the people who know how to manage them and run them, and maximize the value from them. That money can be used for buying more radios, buying more electronics, expanding the systems, improving the communications — that ability for the university, the city, the state or public broadcaster."

Extracting Value from Your Infrastructure

- Continue to use your assets for your needs without the associated operating costs
- Monetize the value with a large up-front payment
- Guarantee long-term cash flow from the assets

Figuring a Bid

Most broadcasters pay more for insurance, maintenance, utilities and taxes on their towers than the tower operators do, Engel said. "When I figure a bid, cash flow is determined by ongoing revenue, less maintenance cost, less insurance cost, less tax, less monitoring cost and less land cost," he said. "When I figure a bid, most of the tower companies are allowing me to plug a number in for insurance of $400 per tower per year, or sometimes as high as $500 or $600.

"When I bought nine towers in Canada myself, I was paying expenses of $1,200 to $1,500 a year per tower. I imagine that many broadcasters in our cities pay much more than that. The tower companies' maintenance costs are lower because they have their own departments that maintain their thousands of towers, or they have sweetheart deals with contractors. Their overall costs are about $1,500 per tower per year, plus land costs and taxes. That's what comes off of revenue to determine cash flow," Engel said.

To figure expenses, Engel said the tower operators use an algorithm, but he does it by hand. He figures out what each tenant is worth in as a multiple of cash flow. He might value a local wireless internet service provider at nine times cash flow, and the Federal Bureau of Investigation at nine times. He creates a weighted average of the amount of revenue they contribute to the tower, multiplied by the cash flow, to derive a blended rate.

Single-carrier Towers

"For instance, I sold two single-carrier cell site towers in Napa Valley, California, for 37 times cash flow to SBA Communications last year," Engel said. "That distorts the value because as soon as you add a second carrier, the multiple becomes half of that. If you buy a tower at 30 times cash flow and you put two carriers on it, all of a sudden your multiple is 15 times cash flow. So, single-carrier site cash flows are distorted, but you're seeing many deals in the range of 20 to 30 times cash flow for single-carrier cell towers because the buyers know they're going to get a second or a third operator."

The cable operators, including Comcast, Time Warner and Charter, are losing market share, Engel said. He said they know they need to be in the wireless communications business. He said that Comcast has talked about a 15-million-hotspot plan that would connect with a virtual network using the Verizon Wireless network to connect and to compete.

"Cox Communications has already invested heavily in InSite Wireless Group," Engel said. InSite owns more than 1,000 towers. "Cox moved its towers into InSite and tried a couple of programs in Texas where they were going to sell their own phones. Charter is also looking at it. Google is looking at it. Apple is looking at it. Everybody wants to be in this business, and the money is huge."

Helping Communities

Engel said he wants to figure out a way to help communities maximize and even grandfather their relationship in, because once the federal government preempts their control, their options will become more limited. With cable TV franchises, Engel said many cities were receiving more than 5 percent, and then the federal government limited it to 5 percent. Those who were grandfathered in were eligible to

continue taking higher shares.

"I think cities and jurisdictions would be wise to look for ways to grandfather their value to the wireless network operators and figuring out someone they can work with," he said. "There are a dozen good companies. When I started doing this for telecom towers in the early '90s, one of my friends had the idea that the tower business needed consolidation. The three publics weren't around, and we started buying up a few broadcast towers. Cellular towers sort of sprung up all over, and we realized that the cellular guys paid their bills. They paid a lot more money for the tower. The escalations were high. They had 25-year renewals, and that's really where the business went."

Investors favored cellular towers so much that Engel said most of the tower consolidators, such as today's Vertical Bridge, Crown Castle International, SBA Communications and American Tower, have covenants in their credit facilities that mandate a high percentage of broadband revenue. Because of the covenants, when these consolidators buy large numbers of broadcast towers, they have to offset the purchase with enough revenue from broadband to cover their covenant.

"That doesn't mean they can only buy broadband, Engel said. "When Pinnacle Towers went broke — and SpectraSite Communications almost did — the banks really went crazy because these guys bought a bunch of stuff and had predicted growth that wasn't there." He said that's when the lending institutions insisted on the covenants.

Land Owners

Early on, tower owners only wanted to lease the land under their towers or perhaps to have an easement. Engel said land owners are becoming more aware of the value of the land under towers. He told of one such owner who asked for half of the money that a tower sold for in exchange for assigning the easement to the buyer. Engel talked about another land owner who receives a 90 percent revenue share from the tower owner for a cell site on Lanai, one of the Hawaiian islands. Lanai is the sixth-largest of the Hawaiian islands, and the owner bought most of it for $300 million in 2012.

A few years ago, enough companies came to understand the value of land beneath towers that they have made a business of buying that real estate, Engel said. Then, when the land lease came up for renewal, they would double or triple the rent. "Lately, what the land owners have been saying is that the tower owner is welcome to leave," he said. "They no longer want him there. They'll just keep the tower and his tenants. There's a real strong initiative on the part of the tower consolidators to begin to control the real estate. Up until a few years ago, they didn't even want to own it. All they wanted was a lease or an easement. Now, they're looking for ownership and control of that underlying land." ■